

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /085 W

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R 271230Z AUG 76

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 2172

INFO AMEMBASSY BRIDGETOWN

AMEMBASSY GEORGETOWN

AMEMBASSY NASSAU

AMEMBASSY PORT

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E.O. 11652: N/A

TAGS: EFIN, PFOR, EALR, JM

SUBJECT: JAMAICAN ECONOMIC SITUATION: HARD TIMES AHEAD

REFERENCE: 1975 KINGSTON 4128

1. SUMMARY: THIS TELEGRAM SUMMARIZES MAJOR CONSTRAINTS OF DETERIORATING JAMAICAN ECONOMIC SITUATION AGAINST WHICH PM MANLEY MUST SEEK RE-ELECTION WITHIN NEXT SIX MONTHS. PROSPECTS FOR IMPROVEMENT APPEAR UNFAVORABLE BEFORE MID-1977 AT EARLIEST BASED ON RECOVERY OF BAUXITE INDUSTRY BY THAT TIME. (ALL FIGURES J\$ UNLESS OTHERWISE INDICATED.) END SUMMARY.

2. BALANCE OF PAYMENTS - (KINGSTON 3306) - DECLINE IN JAMAICA'S BALANCE OF PAYMENTS POSITION IN 1975 HAS MARKEDLY ACCELERATED IN 1976. EXPORTS FOR THE FIRST SIX MONTHS ARE 40 PERCENT LESS THAN COMPARABLE 1975 PERIOD. ALTHOUGH GOJ HAS BEEN MORE SUCCESSFUL IN CONTROLLING

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IMPORTS IN 1976 THAN IN PREVIOUS YEARS, THE 17 PERCENT DROP

DURING THE FIRST SIX MONTHS WAS MORE THAN OFFSET BY THE FALL IN EXPORTS. PRODUCTION DECLINE IN BAUXITE AND ALUMINA IS RESULT OF BOTH SLACKENING DEMAND IN U.S. (UNTIL RECENTLY) AND INDUSTRIAL UNREST INCLUDING STRIKES AND GO-SLOWS WHICH HAVE AFFECTED ALL OF THE COMPANIES SINCE LATE LAST YEAR. SUGAR EARNINGS ARE LESS DUE TO DROUGHT, LABOR PROBLEMS AND A RETURN TO THE EEC FLOOR PRICE EFFECTIVE BEGINNING OF THIS YEAR. TOURISM EARNINGS MAY BE AS LITTLE AS ONE-HALF THOSE OF 1975, MAINLY DUE TO UNFAVORABLE PUBLICITY IN U.S. WHICH IS JAMAICA'S MAIN MARKET. PRIVATE AND OFFICIAL CAPITAL INFLOWS WHICH HAVE TRADITIONALLY OFFSET CURRENT CACACCOUNT DEFICIT ARE NOW LARGELY NEGLIGIBLE. IN 1975 GOJ BORROWING OFFSET DECLINE IN PRIVATE CAPITAL, BUT THE LATTER HAS NOW BECOME CAPITAL FLIGHT (EST. \$200 MILLION OVER PERIOD JAN., 1975 TO MARCH, 1976) AND GOJ IS UNLIKELY TO REACH TARGETED BORROWING LEVELS. AS A RESULT, FOREIGN EXCHANGE RESERVES FELL BY J\$ 118 MILLION IN THE FIRST SIX MONTHS OF 1976 COMPARED TO 1975. ACCORDING TO BANK OF JAMAICA, NET FOREIGN EXCHANGE RESERVES IN MAY WERE MINUS J\$42.6 MILLION, ALTHOUGH THERE HAS BEEN SOME TEMPORARY IMPROVEMENT AS A RESULT OF THE RECENT J\$80 MILLION LOAN FROM CARICOM. TOTAL NET DEBT AT END OF MAY 1976 WAS J\$940 MILLION COMPARED TO J\$648 MILLION A YEAR EARLIER, AND NET EXTERNAL DEBT INCREASED FROM J\$243 MILLION TO J\$371 MILLION OR BY 52.7 PERCENT IN THE SAME PERIOD. BALANCE OF PAYMENTS DEFICIT ALSO LIKELY IN 1977, AND IT MAY TAKE SEVERAL YEARS BEFORE THIS SITUATION WILL BE CORRECTED.

3. PUBLIC SECTOR - (KINGSTON 1766, 1523 AND A-67). ALTHOUGH REVENUES FOR THE 75/76 FISCAL YEAR INCREASED BY 25 PERCENT, EXPENDITURES INCREASED BY 36 PERCENT FOR AN OVERALL DEFICIT OF J\$327.8 MILLION. THIS DEFICIT WAS FINANCED BY TREASURY BILLS \$22 MILLION, LOCAL BORROWING J\$93 MILLION, FOREIGN BORROWING J\$110.5 MILLION, (SOME \$68 MILLION LESS THAN ESTIMATED), AND BANK OF JAMAICA ADVANCE OF J\$105 MILLION. ALTHOUGH FINANCE MINISTER COORE HAS PUBLICLY ANNOUNCED BANK OF JAMAICA FACILITIES WOULD NOT LIMITED OFFICIAL USE

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AGAIN BE UTILIZED TO FINANCE BUDGET BECAUSE OF ITS INFLATIONARY EFFECT, IT CAN HARDLY BE AVOIDED AS REVENUE PROJECTIONS BECOME INCREASINGLY UNREALISTIC WITH DECLINE IN ECONOMIC ACTIVITY. THE J\$ 1 BILLION 76/77 BUDGET REPRESENTED ONLY A 5 PERCENT INCREASE OVER THE PREVIOUS YEAR; ALTHOUGH RECURRENT EXPENDITURES OF J\$ 718 MILLION INCREASED BY J\$108 MILLION, CAPITAL BUDGET WAS J\$66 MILLION LESS. TAX REVENUES FOR 76/77

WERE ESTIMATED AT J\$559.8 MILLION (NEW TAXES TO PROVIDE J\$81 MILLION WERE ANNOUNCED IN MARCH - KINGSTON 0922), NON-TAX REVENUES AT \$37.8 MILLION, AND BAUXITE LEVY AT J\$110 MILLION; BUT MOST OF CAPITAL BUDGET IS TO BE FINANCED BY \$8.1 MILLION CAPITAL REVENUES, J\$119 MILLION LOCAL BORROWING, \$71.5 MILLION INSTITUTIONAL LOANS AND \$63 MILLION FOREIGN LOANS.

4. HOWEVER, REVENUES ARE ALREADY REFLECTING DECLINE IN ECONOMIC ACTIVITY. FOR EXAMPLE, IN FIRST MONTH OF GOJ FISCAL YEAR, APRIL 76 REVENUES WERE 2.8 PERCENT OF ESTIMATED TOTAL COMPARED WITH 3.8 PERCENT IN 1975 AND 5.7 PERCENT IN 1974. INCOME TAXES WERE J\$3 MILLION IN APRIL, 1976 COMPARED TO J\$7.5 MILLION IN 1975 AND J\$9 MILLION IN 1974. IN ADDITION, EXCISE DUTIES WERE 50 PERCENT LESS (FROM J\$4 MILLION IN APRIL 1975 TO J\$2 MILLION IN APRIL 76) AND STAMP DUTIES ONE THIRD LESS THAN IN APRIL 1975 (FROM J\$1.5 MILLION TO J\$1 MILLION IN APRIL 76. EXPENDITURES IN APRIL 76, HOWEVER, INCREASED J\$4.7 MILLION OVER APRIL 75, AND J\$52 MILLION DEFICIT WAS FINANCED BY BANK OF JAMAICA. AS PRIVATE SECTOR RESOURCES HAVE DECLINED DUE TO U.S. RECESSION, UNCERTAINTY OVER PNP POLICIES, ETC. GOJ HAS GREATLY EXPANDED PUBLIC SECTOR SPENDING BUT NO LONGER HAS REVENUES TO DO SO AT SAME RATE CUTBACK APPEARS INEVITABLE AS SOON AS GOJ CAN AFFORD "POLITICAL" COST.

5. UNEMPLOYMENT - UNEMPLOYMENT IS USUALLY ESTIMATED AT 22-25 PERCENT, BUT AT THIS POINT IT MAY BE AS HIGH AS 40 PERCENT. ALTHOUGH TOURIST ARRIVALS WERE ONLY 3 PERCENT LESS JAN-JUNE 1976 COMPARED TO SAME PERIOD IN 1975, DECLINE IN ACTIVITY ACCELERATED MARKEDLY IN JULY AND AUGUST. AS A RESULT, IN ADDITION TO USUAL SUMMER HOTEL LIMITED OFFICIAL USE

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CLOSURES, INFRASTRUCTURE, (ESPECIALLY IN THE MONTEGO BAY AREA) HAS BEEN AFFECTED AS DUTY FREE SHOPS, LAUNDRIES, AND SUPERMARKETS HAVE CLOSED. SINCE BOTH DISTRIBUTIVE AND INDUSTRIAL SECTORS ARE HEAVILY DEPENDENT ON IMPORTS, GOJ'S TIGHTENING OF IMPORT RESTRICTIONS FOR THE REMAINDER OF THE YEAR (KINGSTON 3088) HAS ALREADY BEGUN TO CAUSE LAYOFFS. ESTIMATES OF TOTAL ADDITIONAL UNEMPLOYED BY YEAR END RANGE FROM 35-100,000. IMPACT PROGRAM NORMALLY EMPLOYS

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /085 W

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R 271230Z AUG 76

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SOME 35,000 PEOPLE, BUT (DESPITE OFFICIAL DENIALS)  
PERHAPS ONLY ONE-THIRD OF THESE ARE ACTUALLY WORKING.

6. INFLATION. THIS IS ONE BRIGHT SPOT IN OTHER-  
WISE DISMAL SITUATION. CONSUMER PRICES INCREASED  
BY 17.4 PERCENT IN 1975 COMPARED TO 27.2 PERCENT IN 1974. THE  
DECELERATION IN THE RATE OF INCREASE HAS CONTINUED  
AND IN MAY 1976 PRICES WERE UP BY 9.8 PERCENT OVER THE  
PRECEDING 12 MONTHS COMPARED TO 18.9PERCENT IN MAY 1975.  
SOME OF THE DECLINE IS DUE TO THE FALL IN PRICES OF  
FOOD IMPORTS WHICH ARE ESTIMATED AT J\$92 MILLION  
IN 1976 OR ABOUT 11 PERCENT OF TOTAL IMPORTS OF J\$820  
MILLION. GOJ HAS ALSO INCREASED NUMBER OF ITEMS  
UNDER PRICE CONTROL AND IMPROVED PROGRAM'S IMPE-  
MENTATION, BUT HAS NOT BEEN PARTICULARLY SUCCESSFUL  
AT CONTROLLING WAGES. ALTHOUGH AN INCOMES POLICY  
HAS BEEN ANNOUNCED, MOST WAGE SETTLEMENTS HAVE EX-  
CEEDED THESE GUIDELINES. GIVEN POLITICIZATION OF  
LABOR UNIONS, EROSION IN PURCHASING POWER OF  
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AVERAGE WAGE EARNER SINCE 1973, AND AN UPCOMING ELECTION, GOJ IS UNLIKELY TO ENFORCE ANY WAGE/ SALARY GUIDELINES FOR OBVIOUS POLITICAL REASONS.

7. COMMENT: IN THE SHORT TERM, -- I.E. BEFORE ELECTION - ONE ECONOMIC FACTOR WILL HAVE SIGNIFICANT POLITICAL IMPACT -- UNEMPLOYMENT. IN A COUNTRY WHERE MEMBERSHIP IN PARTY IN POWER OFTEN MEANS DIFFERENCE BETWEEN WORKING OR NOT, POLITIZATION OF LABOR UNIONS MAKES IT EXTREMELY DIFFICULT TO IMPLEMENT AN ADEQUATE INCOMES POLICY. SINCE PROVIDING JOBS MEANS VOTES, FINANCING PUBLIC SECTOR BUDGET AND EXPANDED PUBLIC WORKS PROGRAM TRADITIONAL IN AN ELECTION YEAR WILL TAKE PRIORITY OVER OTHER ECONOMIC PROBLEMS. IT APPEARS MOST UNLIKELY GOJ WILL BE ABLE TO BORROW FROM EXTERNAL SOURCES AMOUNT NEEDED TO FINANCE ITS CAPITAL BUDGET, AND WILL INCREASINGLY ENGAGE IN DEFICIT FINANCING. BAUXITE LEVY WAS ORIGINALLY EXPECTED TO FINANCE DEVELOPMENT, BUT INSTEAD FINANCED CONSUMPTION. ALSO, GOJ USUALLY FAILS TO UTILIZE INSTITUTIONAL LOANS AT TARGETED LEVELS BECAUSE OF FAILURE TO IMPLEMENT PROGRAMS AS REQUIRED. IN ADDITION, THERE HAS BEEN A TOTAL ABSENCE OF FISCAL AND ECONOMIC PLANNING BY THE GOJ. FUNDS RECEIVED HAVE BEEN MISSPENT OR USED FOR OTHER PURPOSES, GENERALLY EXACERBATING AN ALREADY BAD SITUATION. IN ANY CASE, FUNDS FROM THESE SOURCES WILL NOT SOLVE THE GOJ'S PRESENT CRISIS. GOJ'S PRESENT FINANCIAL PREDICAMENT MAKES IT A POOR CREDIT RISK, AND IT MAY SEEK TO IMPLEMENT SOME FORM OF MULTINATIONAL GUARANTEES BY WHICH MDC'S CAN OBTAIN CONCESSIONAL LOANS OR COMMERCIAL LOANS FOR WHICH THEY WOULD NOT OTHERWISE QUALIFY. ANOTHER POSSIBLE ALTERNATIVE WOULD BE TO ASK COMPANIES FOR ADVANCE BAUXITE LEVY PAYMENTS WHICH WOULD THEN BE CREDITED AGAINST FUTURE LARGER PAYMENTS NECESSARILY REQUIRED AS PRICE OF ALUMINUM INCREASES. (LEVY IS TIED NOT ONLY TO PRODUCTION LEVELS BUT ALSO TO PRICE INCREASES IN ALUMINUM). HOWEVER, THIS APPEARS UNLIKELY SINCE GOJ STILL NEEDS COMPANIES' GOODWILL AS WELL AS ITS CAPITAL INVESTMENT TO FINANCE INDUSTRY'S FUTURE EXPANSION. LIMITED OFFICIAL USE

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8. AGAIN, IN THE SHORT TERM, DEBT RESCHEDULING APPEARS UNLIKELY UNLESS IT CAN BE SECURED AS PART OF GENERALIZED LDC DEBT RELIEF FOR WHICH JAMAICANS WILL CONTINUE TO PRESS. DEBT RELIEF IN THIS FORM WOULD NOT BE SO PREJUDICIAL TO GOJ EFFORTS TO SECURE ADDITIONAL LOANS FOR DEVELOPMENT FROM EXTERNAL

SOURCES. TO OBTAIN ADDITIONAL FUNDS FROM IMF WILL  
MEAN IMPLEMENTATION OF DRASTIC ECONOMIC MEASURES -  
E.G., DEVALUATION, TOUGH INCOMES POLICY, COST  
CONTROLS, ETC. -- WHICH WILL MARKEDLY CUT STANDARD  
OF LIVING OF EVERY JAMAICAN, ESPECIALLY MIDDLE  
CLASS. (KINGSTON 3385) HOWEVER, PROBLEMS OF EFFEC-  
TIVE RESOURCE ALLOCATION REMAIN SAME REGARDLESS OF  
WHETHER GOJ IS COMMUNIST, CAPITALIST, OR DEMOCRATIC-  
SOCIALIST, AND VERY SOON GOJ IS GOING TO HAVE TO  
FACE ECONOMIC FACTS. HARD TIMES ARE AHEAD, AND  
THERE IS LITTLE PROSPECT OF ECONOMIC UPTURN BEFORE  
END OF 1977. MANLEY IS UNLIKELY TO ACCEPT POLITICAL  
CONSEQUENCES OF NECESSARY ECONOMIC MEASURES UNTIL HE  
IS RE-ELECTED. COSTS OF MANLEY'S FAILURE TO PLAN  
HAVE FINALLY CAUGHT UP WITH HIM, AND IT IS REGRET-  
TABLE THAT JAMAICAN PEOPLE HAVE TO PAY THE PRICE.  
DORRANCE

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## Message Attributes

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**Control Number:** n/a  
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**Draft Date:** 27 AUG 1976  
**Decaption Date:** 01 JAN 1960  
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**Disposition Date:** 28 MAY 2004  
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